Department of Alcohol and Drug Programs:

A Review of the Processes Used To Allocate and Disburse Alcohol and Drug Funds to Counties

February 1997
96039.1

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February 19, 1997

96039.1

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 197, Section 54(b), Statutes of 1996, the Bureau of State Audits presents its audit report concerning the Department of Alcohol and Drug Program's (department) financial procedures for allocating and disbursing funds for treatment services to counties. This report concludes that because the law allows the department to base its allocations on a variety of factors, significant disparities exist in county per capita funding levels. In addition, we found that uncertainty created by a court case and changes in state legislation involving Medi-Cal funds delayed completion of contracts between the department and counties.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Enclosure

Table of Contents

Summary

Results in Brief

The Department of Alcohol and Drug Programs (department) directs the State's efforts to prevent alcohol and drug abuse. It funds a network of treatment and prevention services administered by county governments. These services include outpatient, residential, and methadone maintenance programs. In fiscal year 1995-96, the department received approximately $94 million in state and $260 million in federal funding, including federal funds for the California Medical Assistance Program (Medi-Cal). The department provides services primarily by allocating funds to each county and then contracting with each county to administer alcohol and/or drug programs, either directly or through contracts with local providers.

Audit Highlights...

We reviewed the department's allocation and disbursement processes and found that:

- ☑ ***Because the department is allowed broad discretion in how funds are allocated, significant disparity exists in county per capita funding levels.***
- ☑ ***Even though the department experienced delays in completing certain of its fiscal year 1995-96 contracts with counties, once the contracts were complete, disbursements were made within 25 days.***

Our review focused on the department's financial procedures for allocating and disbursing funds to the State's counties. Specifically, we noted the following conditions.

- Although the California Health and Safety Code establishes requirements for the allocation of alcohol program funds, such requirements for drug programs were repealed in 1994. Nevertheless, the department uses the same process and methods to allocate funds for both programs. According to the department, it allocates these funds to address statewide needs rather than allocating funds in proportion to each county's population or level of alcohol and drug problems. To allocate these funds to counties, the department applies various methods that it develops in cooperation with county administrators and other interested parties. These methods consider utilization, population, past funding levels, and funding levels relative to other counties. Because the law allows the department to base its allocations on a variety of factors, disparity exists in county per capita funding levels.

- In fiscal year 1995-96, uncertainty created by a court case and changes in state legislation on Medi-Cal funds delayed completion of contracts between the department and the counties. Even though the department disbursed

funds within a reasonable period following completion of their contracts, the five counties we reviewed received only 72 percent of their funding during the fiscal year.

Recommendations

The Legislature should reassess and clarify its intent regarding the department's allocation of alcohol and drug program funds. If the Legislature intended to eliminate the allocation requirements for drug programs, it should eliminate the references to those requirements.

In contrast, if the Legislature intended to retain allocation requirements for the drug programs, it should re-adopt such requirements.

Finally, if the Legislature intends that the department allocate alcohol and drug funds in proportion to each county's level of alcohol and drug problems or population, it should clarify the law.

Agency Comments

In its response, the department provides additional information about its allocation process.

Introduction

Background

The Department of Alcohol and Drug Programs (department) directs the State's efforts to prevent alcohol and drug abuse. It funds a network of treatment and prevention services administered by county governments. Treatment services include outpatient, residential, and methadone maintenance programs. In addition, the department licenses residential alcohol or drug recovery treatment facilities. The department receives state and federal funding, including federal funds for the California Medical Assistance Program (Medi-Cal) which matches state funds with federal Medicaid funds. The department provides its services primarily by contracting with the State's counties. The counties, in turn, administer alcohol and/or drug programs, either directly or through contracts with local providers.

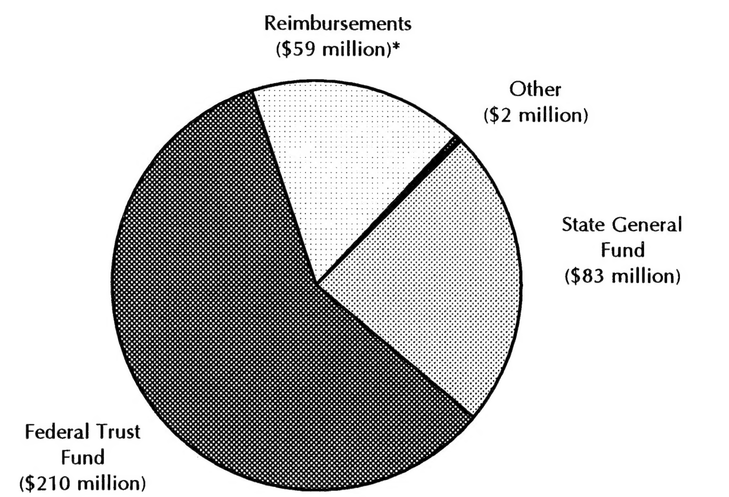
In fiscal year 1995-96, the department's budget was approximately $354 million. Of this, approximately $25.5 million was designated for administration and operation costs. The remaining $328.5 million was designated for the various programs established by the department.

Figure 1 illustrates the major sources of the department's funds.

The department designated approximately $50 million of the $83 million in State General Fund money to match federal funding under the State's Medi-Cal program. Under the Medi-Cal program, the State matches dollar for dollar federal funds received from the Department of Health Services. The remaining General Fund money, approximately $33 million, is available to the department for county programs or general administration and operation costs.

Figure 1

Sources of Funds for the Department Fiscal Year 1995-96



Source: 1995 Budget Act, adjusted for budget revisions.

*Composed primarily of $50 million from the Department of Health Services as reimbursement for the federal share of eligible Medi-Cal expenses and $7.5 million from the Department of Corrections as reimbursement for costs related to drug and alcohol programs offered to parolees.

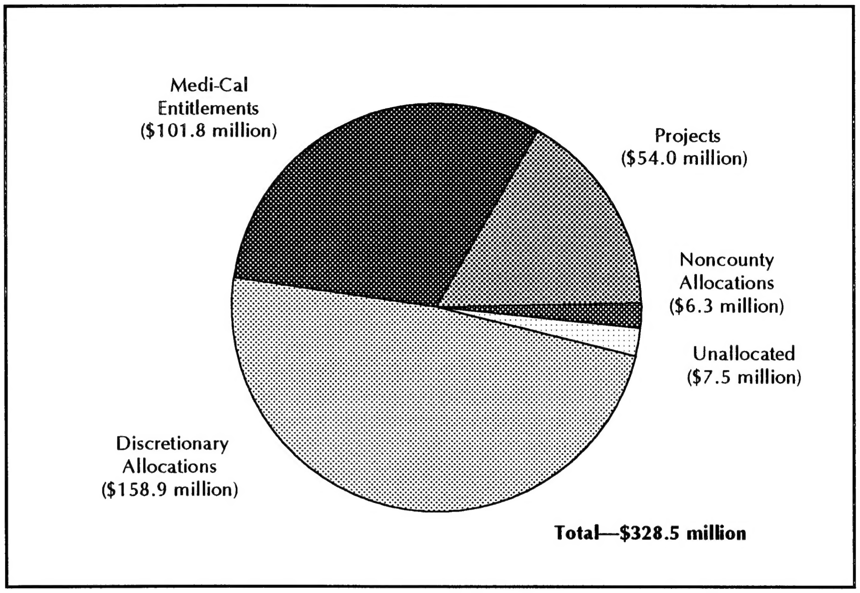
As illustrated in Figure 2, of the department's $354 million in revenues, approximately $328.5 million was allotted for expenditure on the department's programs. These moneys are also called local assistance funds. We separated these funds into the following five categories:

- Medi-Cal entitlements—moneys allocated for services provided to Medi-Cal eligible beneficiaries. Both state and federal funds are included, matched dollar for dollar.

- Projects—funds designated for specific populations or counties. Currently, these projects are funded by the federal government or the state Department of Corrections. Examples include the HIV Early Intervention services and the Homeless Youth Project.

Figure 2

The Department's Planned Expenditure of Program Funds Fiscal Year 1995-96



Source: Department allocation worksheets—Fiscal Year 1995-96

- Noncounty allocations—funds used by the department to contract directly with other organizations, such as nonprofit organizations or schools. Contracted services include technical assistance, studies, and conferences. Both state and federal funds are included within this category.

- Discretionary allocations—those funds remaining after the department allocates state and federal funds for entitlements, projects, and noncounty allocations. The department allocates these funds, at its discretion, to all counties within the State. The discretionary funds include some federal funds that the department is required to spend for certain specific purposes, such as community prevention projects. (In those cases, we did not consider the funds special project funds because they are available to all counties.)

- Unallocated—federal funds budgeted for fiscal year 1995-96 but unallocated at the end of the fiscal year. Of the total, the department had allocated $4.8 million to counties for expenditure in fiscal year 1995-96. However, because the counties were unable to spend these funds, the department reduced their allocations.

In fiscal year 1995-96, the department used several different methods to allocate funds to counties. The allocation methods, discussed in Chapter 1, consider utilization, population, past funding levels, and funding levels relative to other counties. Before it adopts a funding allocation method, the department consults with an association of county drug-program administrators as well as an advisory committee appointed by the department director.

Scope and Methodology

Chapter 197, Statutes of 1996, requires the department to contract with the Bureau of State Audits to conduct an independent audit of the department's financial procedures, including its timelines, for allocating and disbursing alcohol and drug program funds to counties.

To evaluate the department's financial procedures and timelines for allocating and disbursing these funds, we reviewed its methods for fiscal year 1995-96. We also reviewed state and federal laws and regulations related to the department's programs and interviewed key staff knowledgeable about the department's procedures. In addition, to obtain a historical perspective, we reviewed the allocation methods the department used in fiscal years 1992-93 through 1994-95. We also determined, on a sample basis, whether an unusual amount of time elapsed between when a county incurred a reimbursable expense and when the department actually disbursed funds to the county. Finally, we visited five counties (Contra Costa, Los Angeles, Riverside, Sacramento, and San Francisco) to understand how the department's allocation and disbursement methods affected them and to determine how the counties, in turn, allocated and paid funds to the local service providers.

Additionally, for our sample of five counties, we determined how the counties allocated funds to the local service providers. We found that San Francisco County solicits proposals from prospective providers and awards funds through a competitive process. The other counties allocate funds based on prior years' funding levels. In cases where additional funds are available, all but Riverside County typically solicit proposals from prospective service providers. Riverside County allocates additional funds to existing providers.

Chapter 1

The Department Applies Various Methods To Allocate Funds to Counties

Chapter Summary

The Department of Alcohol and Drug Programs (department) applies various methods to allocate funds to counties. It develops these methods in cooperation with county administrators and other interested parties. These methods consider utilization, population, past funding levels, and funding levels relative to other counties. Because the law allows the department to base its allocations on a variety of factors, disparity exists in county per-capita funding levels.

Laws and Regulations Affecting Allocation

The Health and Safety Code (code), Section 11814, requires the department to base its allocations for alcohol programs on the population of each county. In addition, the code requires the department to assure that counties with small populations receive a minimal level of funding to provide adequate alcohol services. The department may also take into account other factors in making its allocations if these factors relate to the level of alcohol problems. The code also establishes fiscal year 1984-85 as the base funding year. Before its repeal in 1994, Section 11983 contained these same requirements for drug programs.

Since their repeal in 1994, drug program allocation requirements no longer exist.

In 1994, however, Section 11983 was repealed by Chapter 64, Statutes of 1993. Although certain sections of the code continued to refer to Section 11983, when it was repealed, no new requirements for allocating drug program funds were enacted. Moreover, although drug allocation requirements no longer exist, the code still retains fiscal year 1984-85 as the drug allocation base year.

Finally, code Sections 11778 and 11981 require the department and counties to maintain a cooperative partnership to assure effective implementation of alcohol and drug programs. To do so, the department works closely with county administrators through their organization, the County Alcohol and Drug Program Administrators Association of California (CADPAAC).

The department exercises broad discretion in implementing the code. According to the department, it allocates funds to meet statewide needs rather than allocating funds in proportion to each county's level of alcohol and drug problems. The department relies on each county to target funds to meet its individual needs. Further, although not required to, the department uses the same process and methods to allocate both alcohol and drug program funds.

The department does not allocate funds in proportion to each county's level of alcohol and drug problems.

The Department's Allocation Process

The department makes an initial allocation to the State's 58 counties and then periodically modifies these as changes occur in state and federal funding. In fiscal year 1995-96, it made four allocations. The department's allocation process is complex, and several weeks may elapse between the time the department receives funding and informs the counties of their allocations. For example, it took the department one month to complete its allocation following passage of the fiscal year 1995-96 state budget.

According to the department, it begins the allocation process by informally assessing counties' needs. Specifically, it examines the types and amounts of services contracted for by local providers, waiting lists for services, and county budgets. Once it knows how much funding is available, the department develops a preliminary allocation. According to the department, one of its objectives when allocating funds to counties is to maintain the counties' infrastructure needed to operate alcohol and drug treatment programs. Specifically, it tries to stabilize the counties' projects by maintaining each county's funding level. It presents the preliminary allocation to CADPAAC and other interested parties for their review and comments on the allocation methods. The department then finalizes its allocations, informing counties, by letter, of the methods and rationale it applied in arriving at the allocations. In addition, it provides each county a schedule showing the allocations for all of the counties.

The Department's Allocation Methods

As illustrated in Figure 2 (page 3), we separated the allocation to counties into three general categories: the California Medical Assistance Program (Medi-Cal) entitlements, projects, and discretionary allocations. The department allocates funds within these categories using factors that consider utilization, population, past funding levels, or funding levels relative to

other counties. Specifically, the department allocated the Medi-Cal entitlement funds to counties based on the counties' estimates of Medi-Cal related costs. Allocations for projects were generally based on enabling legislation, agreements with the federal government or another state department, or, according to the department, studies that demonstrate the level of need for such projects. Finally, for discretionary allocations, the department used past years' funding levels as a "base" and allocated any increases or decreases in funding using various methods. Appendix A describes the methods used to allocate discretionary funds.

Table 1 illustrates the general methods the department used to allocate discretionary funds in fiscal year 1995-96.

Table 1

Methods Used to Allocate Discretionary Funds in Fiscal Year 1995-96 (Amounts in Thousands)

Allocation Method	Amount Allocated	Percentage
Population-based	$ 3,981	2.5%
Other	15,483	9.5
Prior year's amount	142,738	88.0
Total*	**$162,202**	**100 %**

Source: Department allocation worksheets.

*This total is more than total discretionary allocations shown in Figure 2 because expenditures for entitlements were less than planned. Thus, more money was available for discretionary allocations.

As indicated in Table 1, in fiscal year 1995-96, 88 percent of discretionary allocations was based on the prior year's amounts. Our analysis of the department's fiscal year 1992-93 through fiscal year 1994-95 allocations shows that some portion of the "prior year's amount" was originally based on population; however, we could not determine the size of that portion because the "prior year's amount" reflects the cumulative effect of funding decisions dating back several years. Additionally, a small portion (2.5 percent) of the discretionary allocations was based on population and the remainder was allocated based on other factors.

Results of County-by-County Analysis Reveal Disparity in County Per Capita Amounts

Using factors other than population, creates disparity in per capita funding.

To determine the effect of allocating funds based on factors other than population, we computed each county's discretionary fund per capita amount. To do so, we adjusted the department's final county allocation figures to remove funding for projects and Medi-Cal entitlements because these funds are available only to specific populations or counties. We also excluded the Medi-Cal entitlements because they represented estimates rather than actual amounts.

In addition to excluding projects and Medi-Cal entitlements, we also excluded funds allocated to the 21 small counties that receive special minimum allocations. We then divided each county's discretionary funds by its population to arrive at the per capita amount. The results of our calculations are displayed in Table 2.

Table 2

Total Discretionary Allocations by County
Fiscal Year 1995-96

County Name	Fiscal Year 1995-96 Allocations (In Thousands)	Per Capita Amount
San Francisco	$ 7,706	$10.25
Napa	1,028	8.77
Humboldt	928	7.47
Marin	1,759	7.38
Sutter/Yuba[1]	925	6.85
Butte	1,239	6.36
Imperial	839	6.19
Merced	1,202	6.07
San Luis Obispo	1,375	6.05
Yolo	902	6.04
Kings	668	5.87
Shasta	924	5.76
Santa Cruz	1,371	5.71
Monterey	2,045	5.66
Madera	596	5.64
Orange	14,544	5.60
Solano	2,073	5.60
San Mateo	3,706	5.41
Ventura	3,794	5.35
Santa Clara	8,257	5.18
Riverside	6,844	5.05
San Joaquin	2,618	5.04
El Dorado	717	5.02
Placer	990	4.96
Fresno	3,663	4.91
San Bernardino	7,654	4.87
Santa Barbara	1,841	4.73
Kern	2,860	4.67
Tulare	1,595	4.60
Sonoma	1,908	4.58
Stanislaus	1,858	4.52
San Diego	11,754	4.42
Sacramento	4,873	4.37
Contra Costa	3,745	4.34
Los Angeles	39,805	4.27
Alameda	4,944	3.68
Total[2]	**$153,550**	

[1]The department combines the populations of Sutter and Yuba counties when allocating funds.

[2]The total excludes $8.65 million allocated to "minimum base allocation" counties. Such allocations are provided for in law for the State's 21 counties with populations under 100,000.

Because the law allows the department to base its allocations on a variety of factors, significant disparities exist in per capita funding as illustrated by Table 2. For example, according to our calculations, in fiscal year 1995-96, San Francisco received approximately $10.25 per person in discretionary allocations while Alameda County received only $3.68 per person. The department attempts to mitigate disparity in per capita funding using its "step-up" method. (See Appendix A for a description of this method.) However, we estimate it would take more than $166 million to raise each county's per capita funding level to $10.25 and eliminate the disparity in the discretionary allocation.

Recommendations

The Legislature should reassess and clarify its intent regarding the department's allocation of alcohol and drug program funds. If the Legislature intended to eliminate the allocation requirements for drug programs, it should eliminate the references to those requirements.

In contrast, if the Legislature intended to retain allocation requirements for the drug programs, it should re-adopt such requirements.

Finally, if the Legislature intends that the department allocate alcohol and drug funds in proportion to each county's level of alcohol and drug problems or population, it should clarify the law.

Chapter 2

Several Factors Contributed to Delays in the Department's Contracting and Disbursement Processes in Fiscal Year 1995-96

Chapter Summary

In fiscal year 1995-96, several factors delayed completion of certain contracts between the Department of Alcohol and Drug Programs (department) and counties. Specifically, uncertainty created by a court case and changes in state legislation involving California Medical Assistance Program (Medi-Cal) funds delayed completion of these contracts. Although the department disbursed funds to the five counties we visited within a reasonable period following completion of their contracts, because of the contract delays, these counties received only 72 percent of their funding for drug and alcohol programs during the fiscal year.

The Department's Agreements With Counties Include Contracts and Various Amendments

Most of the services funded by the department are ultimately provided at a local level, under the administration of each county. Typically, the local service provider and the county complete a service agreement or contract that specifies the terms of their agreement. The counties, in turn, complete contracts with the department.

The California Health and Safety Code, Section 11758.10, requires that the department, beginning in July 1994, negotiate multi-year contracts with every county. In addition, Section 11758.40 allows the department, beginning in fiscal year 1995-96, to negotiate Medi-Cal drug treatment program contracts with each county.

The department negotiated three-year contracts with counties beginning with fiscal year 1994-95 and ending with fiscal year 1996-97. Each contract contains a schedule detailing the allocation of funds for each fiscal year. Because the contracts represent both state and federal funding and because funding

levels in future years cannot be predicted with certainty, the contracts are subject to renegotiation or amendment each year. In addition, the contracts omit funding for federal Medi-Cal drug treatment services and certain programs funded by the General Fund. According to the department, it omitted the funding from these two sources from the initial three-year contract because a then-pending court case[1] created uncertainty as to how the department would allocate its General Fund appropriation. Specifically, the department first uses its General Fund appropriation (approximately $83 million) to pay the State's share of Medi-Cal drug treatment services. As a result of the court's ruling, costs for these services are estimated to be approximately $50 million in fiscal year 1995-96. The remainder is available for non-Medi-Cal services. If the department underestimates the counties' need for these Medi-Cal entitlements, it must use the remaining General Fund appropriation to make up the shortage. According to the department, the overall uncertainty over the specific funding levels for both Medi-Cal and non-Medi-Cal programs contributed to delays in completing contract amendments.

Fiscal year 1995-96 county Medi-Cal contracts were delayed because new legislation imposed changes on the department's administration.

Legislation passed in August 1995 precipitated the need for changes in the department's administration of the Medi-Cal drug treatment program funds. This legislation, Assembly Bill 911 (AB 911), Chapter 305, Statutes of 1995, imposed restrictions on the department's provision of Medi-Cal treatment benefits and revised the method for determining the maximum reimbursement rate for treatment providers. In addition, the legislation required the department to maintain a portion of the General Fund allocation as a reserve to supplement counties for the State's share of previously unidentified costs of providing approved Medi-Cal drug treatment services.

Although at the time the new legislation took effect the department had nearly completed its fiscal year 1995-96 Medi-Cal contracts,[2] the department believed that significant changes in these contracts were warranted. The department modified its Medi-Cal contracts between the State and counties

[1] The case, Sobky v. Smoley, resulted in a February 1995 judgment against the State of California. The U.S. District Court ruled that the State must ensure that all Medi-Cal beneficiaries who meet certain requirements for methadone maintenance treatment shall be provided such services without regard to their county of residence. Further, it ruled that no eligible beneficiary shall be placed on waiting lists for such services because of budgetary constraints.

[2] The general contracting process is described in Appendix B. The contracts that were nearly completed were ready to send to each county for board of supervisor approval.

and its interagency agreement with the State Department of Health Services. These changes resulted in delays in completing final Medi-Cal contracts between the department and counties, as well as delays in completing amendments to the three-year contracts established in fiscal year 1994-95.

To understand how these changes affected counties, we visited five counties and analyzed the amount of time that elapsed between when the department restarted the contract development process and when the final contracts were completed. In general, we found that the department added about five months' time to its normal contract process, illustrated in Appendix B, to implement the changes it felt were necessary in response to AB 911 and to ready the contracts for county approval.

Some of the delays in contracting with counties were due to slow approval by boards of supervisors.

In addition, four of the five counties we visited further delayed completion of their contracts. Specifically, Contra Costa County added approximately four months because it elected to combine its modified Medi-Cal contract with a later amendment, instead of completing each separately. Los Angeles and Sacramento counties added over one month and three months, respectively, because they could not obtain prompt approval from their boards of supervisors. Finally, as of December 31, 1996, San Francisco County's contract had not been approved by its board of supervisors.

As a result of the time added by the department in response to AB 911 and the time used by the four counties that completed their Medi-Cal contracts, the new Medi-Cal contracts were not completed until between 9 and 13 months after the start of the fiscal year.

Because the department cannot disburse funds until the contracts are completed, the counties experienced delays in receiving funds from the department. Each of the five counties we visited told us that the local service providers were paid promptly for both Medi-Cal and non-Medi-Cal services. Each county used its own funds to pay their service providers while waiting to be reimbursed by the department.

Table 3

Disbursements to Five Counties by Quarter Fiscal Year 1995-96 (Amounts in Thousands)

County	Program	Contract	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Percent of Total Contract
Los Angeles	Medi-Cal	$12,858	-	-	-	$ 9,431	$ 9,431	
	Other	55,923	$9,741	$12,989	$6,495	9,600	38,825	
Total		**$68,781**	**$9,741**	**$12,989**	**$6,495**	**$19,031**	**$48,256**	70%
San Francisco	Medi-Cal	N/A*	-	-	-	-	-	
	Other	10,382	$2,265	$ 3,020	$1,510	$ 2,265	$ 9,060	
Total		**$10,382***	**$2,265**	**$3,020**	**$1,510**	**$ 2,265**	**$ 9,060**	**87%***
Riverside	Medi-Cal	$1,580	-	-	$ 951	$ 468	$ 1,419	
	Other	7,983	$1,469	$1,959	979	3,062	7,469	
Total		**$9,563**	**$1,469**	**$1,959**	**$1,930**	**$3,530**	**$ 8,888**	**93%**
Contra Costa	Medi-Cal	$1,947	-	-	-	-	-	
	Other	6,533	$1,371	$1,833	$915	$ 1,373	$ 5,492	
Total		**$8,480**	**$1,371**	**$1,833**	**$915**	**$ 1,373**	**$ 5,492**	65%
Sacramento	Medi-Cal	$3,452	-	-	-	-	-	
	Other	5,545	$1,120	$1,493	$746	$1,120	$ 4,479	
Total		**$8,997**	**$1,120**	**$1,493**	**$746**	**$1,120**	**$ 4,479**	50%

Source: Department disbursement records.

*As of December 1996, San Francisco did not have a Medi-Cal contract. Therefore, contract value is unknown and not included in the total. No disbursements have been made.

As illustrated in Table 3, the department did not disburse Medi-Cal funds to the counties we visited until at least the third quarter. Specifically, Riverside and Los Angeles counties did not receive disbursements until the third and fourth quarters, respectively. In addition, the department did not make disbursements to Sacramento and Contra Costa counties until after the end of fiscal year 1995-96. Finally, as of December 1996, no disbursements have been made to San Francisco County. However, for each of the four counties that received disbursements, we found that the department made disbursements within 25 days following completion of the Medi-Cal contracts.

The disbursements for non-Medi-Cal programs are displayed as "Other" in Table 3. As noted previously, the contracts between the department and counties for non-Medi-Cal programs excluded certain programs funded by the General Fund because

the funding levels for these programs are dependent on Medi-Cal funding levels. As a result, the department could not disburse portions of the "Other" category illustrated in Table 3 until the department and counties completed contract amendments that included these discretionary funds. For example, Contra Costa County's contract for "Other" programs is $6,533,000, which includes the initial contract amount of $5,492,000 and an amendment for $1,041,000. As indicated in Table 3, Contra Costa County received $5,492,000 in disbursements during the fiscal year. These periodic disbursements were based on one-twelfth of the initial contract amount. The department and Contra Costa County amended their initial contract on July 10, 1996, and the department disbursed the remaining $1,041,000 within 14 days. Similarly, the other four counties we visited received payment for the balance of their contracts within 22 days following completion of their contract amendments.

Once contracts were finally completed, disbursements were made within 25 days.

We also calculated the percentage of overall contract amounts that each county received by the end of the fiscal year. We excluded figures for the San Francisco County Medi-Cal contract because it was not complete as of December 1996. For the five counties we reviewed, the department paid $76.2 million (72 percent) out of a total contract value of $106.2 million. Of the remaining $30 million (28 percent), the department had paid $27.4 million and $2.6 million remained unspent as of December 1996.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: February 19, 1997

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Appendix A

Methods Used To Allocate Discretionary Funds to Counties in Fiscal Year 1995-96

The Department of Alcohol and Drug Programs (department) used several methods to allocate discretionary funds to counties in fiscal year 1995-96. In general, these methods are based on population, prior years' funding, or other factors.

Population-Based Method

Under this method, also called the per capita method, funds are allocated to counties based on the counties' proportionate share of the State's total population.

Prior Years' Funding Level Method

Under this allocation method, the department allocates the same amount of funds to the county as the county received in the prior year.

Other Methods

Proportionate Loss—The proportionate loss method allocates funds based on a county's proportionate share of past funding cuts. The objective is to compensate counties for prior funding decreases. For example, if Los Angeles County experienced a $1 million decrease in funding in fiscal year 1994-95 and the total decrease for all counties was $10 million in fiscal year 1994-95, Los Angeles County's share would be 10 percent. Thus, if $8 million were available for allocation in fiscal year 1995-96, under the proportionate loss method, Los Angeles County would be allocated 10 percent of the $8 million, or $800,000.

Percentage of Funds—The percentage of funds method allocates funds to counties based on counties' percentage of previously allocated funds. For example, suppose Los Angeles County received $1 million for a program in fiscal year 1994-95 and the total funds allocated to all counties was $10 million,

Los Angeles County's share would be ten percent. If there were $12 million available for allocation in fiscal year 1995-96, Los Angeles would receive 10 percent of $12 million or $1.2 million.

Step-up—Under the step-up method, the counties with the lowest base per capita funding levels are raised to the next higher base per capita level. (Within this context, base funding represents total county funding, less certain special projects.) In the step-up method, the department calculates a per capita base level of funding by dividing the base funding by the county population. Once a per capita base is calculated for each county, the department identifies the county with the lowest per capita funding level. Funding is increased for the county with the lowest per capita rate until it is equal to the next lowest county's rate. This process is repeated for all the counties with the lowest per capita funding levels—until either the available funding is exhausted or until all counties have the same per capita funding level. For example, suppose Los Angeles County has a per capita funding level equal to $5, and the next lowest county, Butte County, has a $6 per capita level. Under the step-up method, the department would allocate funds to Los Angeles County until its per capita funding level equaled $6. If funds remained to be allocated and the next lowest county had a per capita funding level of $7, then both Los Angeles and Butte counties would be allocated funds until their funding levels equaled $7 per capita.

Appendix B

General Description of the Contracting and Amendment Processes—Elapsed Time

Task	Number of Weeks Allotted to Complete Task*			
	Contracts		Amendments	
	Department	County	Department	County
The department develops its funding allocation and sends budget instructions to the counties.	13		5	
The counties prepare budget information and record the information on a computer disk supplied by the department.		9		6
The department reviews the budget information supplied by the counties and creates a county contract that is then sent to the county for approval.	6		6	
The county obtains local approval—typically by the county board of supervisors.		4		4
The department reviews the approved county contract and sends it to the State Department of Finance for final approval.	4		4	

*The amount of time allotted to accomplish each task is based on the department's written timeline for processing contracts. The elapsed time represents the total time allotted by the department to process contracts or amendments for all counties.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
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February 10, 1997

Kurt R. Sjoberg
State Auditor
Bureau of State Audits
600 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

This is in response to your report regarding the recent audit of the Department of Alcohol and Drug Programs (Department). The audit was performed as a result of a legislative mandate for the Department to contract for an independent audit of its procedures for the allocation of funds and reimbursement of costs for treatment services. The mandate was included in the Fiscal Year (FY) 1996-97 Budget Act, as well as in AB 3483 (Ch.197, Statutes of 1996).

The Department appreciates the efforts of the Bureau of State Audits (Bureau) in reviewing the processes used to allocate and disburse alcohol and drug funds to California's 58 counties. This response addresses the draft of the Bureau's report submitted to the Department on February 4, 1997, and as orally modified by the Bureau through February 10, 1997. The Department has not had the opportunity to review any modifications made by the Bureau after this time.

While the report contained no findings, the Bureau does make a recommendation that the Legislature should reassess and clarify their intent regarding the Department's methodology for allocating funds to counties. The Department's response to the report and recommendation follows:

> The Department invests in the infrastructure of the alcohol and other drug abuse treatment and recovery service delivery system by allocating funds to counties and treatment providers at the local level. To maximize this investment, the Department works closely with organizations such as the County Alcohol and Drug Program Administrators Association of California and the Director's Advisory Council (comprised of providers, client advocates and other constituent groups) to solicit input on the factors to be included in developing the methodology for allocating funds. However, the final responsibility for allocating funds rests, pursuant to statute, with the Department.
>
> The fair and equitable allocation of resources is both a complex and sensitive process. The Health and Safety Code, Section 11814, established FY 1984-85 as the base funding year for determining the appropriate level of funding for each county.

This level of funding is considered critical for maintaining community efforts and the continuity of services to our clients. In addition to maintaining historic funding levels, the Department takes into account other traditional indicators of need, including factors such as: population, equity, special populations, legislatively mandated projects and small and rural county needs.

In the current allocation methodology, the variances that exist in county per capita funding levels originated when the State of California assumed responsibility for allocating federal Block Grant funds in 1982. In Government Code Section 16366.6, the Legislature mandated Block Grant funds continue to be disbursed to the grantees that received funding from the 1980-81 categorical grant programs. The counties and the Department have responded to these variances by allocating new discretionary (non-categorical) funds based on the equity step-up methodology. This methodology disburses 50 percent of funds based upon a per capita formula and the remaining 50 percent on the equity step-up. (Reference Appendix A.)

In this report under "The Department's Planned Expenditures of Program Funds for FY 1995-96," Figure 2 indicates that $7.5 million was unallocated. In response, $4.8 million represents funds originally allocated to the counties in FY 1995-96. These funds were identified by the counties as unspent and, in accordance with state statute, the Department reduced the allocation, carried the funds over to the subsequent fiscal year and reallocated the funds to the counties. Of the remaining funds, $1.4 million was also allocated to the counties in 1996-97.

Should there be a need to further examine the statutory provisions, the Department would welcome the opportunity to discuss those issues with all interested parties. If you have any questions, please contact Desirée Wilson, Deputy Director, Division of Administration, at 323-2065.

Sincerely,

Andrew M. Mecca, Dr.P.H.
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps